

Decision **PROPOSED DECISION OF ALJ KENNEY** (Mailed 4/9/2013)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company for Authorization to (1) Obtain Long-term Debt Capital Not to Exceed the Equivalent of U.S. \$1,500,000,000; (2) Include Certain Features in Debt Securities or Enter into Certain Derivative Transactions; (3) Hedge Issuances of Debt Securities and Preferred or Preference Securities; and (4) Take All Other Necessary, Related Actions (U904G).

Application 12-12-003
(Filed December 10, 2012)

**DECISION AUTHORIZING SOUTHERN CALIFORNIA GAS COMPANY
TO ISSUE LONG-TERM DEBT SECURITIES**

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**DECISION AUTHORIZING SOUTHERN CALIFORNIA GAS COMPANY
TO ISSUE LONG-TERM DEBT SECURITIES****1. Summary**

In response to Application (A.) 12-12-003 filed by Southern California Gas Company (SoCalGas), this decision grants SoCalGas authority pursuant to Public Utilities Code Sections (Pub. Util. Code §§) 816 - 818 and 851 to do the following:

1. Issue long-term debt in an aggregate principal amount not to exceed \$1.118 billion (hereafter, "Debt Securities"), including Debt Securities secured by utility property and accounts receivable.
2. Use debt-enhancement features, derivative transactions, and hedging strategies to lower the cost and/or improve the terms and conditions of the Debt Securities for the benefit of ratepayers.

The authority granted by today's decision will become effective when SoCalGas pays a fee of \$440,000 pursuant to Pub. Util. Code § 1904(b). The fee is due no later than 30 days from the effective date of today's decision.

SoCalGas is authorized to use the proceeds from the Debt Securities to (1) refinance \$250 million of long-term debt that matures in 2014, and (2) finance construction expenditures. These authorized uses will help SoCalGas fulfill its obligation under Pub. Util. Code § 451 to "furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities...as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public."

The cost of the Debt Securities authorized by today's decision will depend on market conditions at the time the debt is issued. SoCalGas forecasts that the annual cost of the Debt Securities (i.e., interest expense and amortized issuance costs) will be approximately \$54.0 million.

In A.12-12-003, SoCalGas requested authority to issue \$1.5 billion of long-term debt. Today's decision reduces SoCalGas's request by \$382 million, which is equal to the amount of long-term debt that SoCalGas has not yet issued pursuant to its authority under Decision (D.) 09-09-046.

Today's decision also denies SoCalGas's request for authority to apply the debt enhancements and hedging strategies authorized by today's decision to the preferred stock that SoCalGas may issue pursuant to D.06-07-012 and D.96-09-036. We recently held in D.12-06-015 that debt enhancements and hedging strategies "shall only be used in connection with debt securities."¹ Preferred stock is not a "debt security" within the meaning of D.12-06-015.

This proceeding is closed.

2. Procedural Background

Southern California Gas Company (SoCalGas) is a public utility subject to the Commission's jurisdiction. SoCalGas is engaged primarily in the purchase, distribution, transportation, and sale of natural gas to approximately 20 million customers in southern California and parts of central California. SoCalGas owns underground storage reservoirs, natural gas transmission pipelines, compressor plants, distribution pipelines, service meters, metering and regulating stations, booster stations, office buildings, general shops, warehouses for materials and supplies, and other property necessary for its business.

SoCalGas filed Application (A.) 12-12-003 on December 10, 2012. Notice of A.12-12-003 appeared in the Commission's Daily Calendar on December 13, 2012. There were no protests or responses to the application.

¹ D.12-06-015 at 29.

A properly noticed prehearing conference (PHC) was held on February 13, 2013. On February 21, 2013, the assigned Commissioner issued a scoping memo that determined the need for hearings and the scope, schedule, and category of this proceeding pursuant to Rule 7.3(a) of the Commission's Rules of Practice and Procedure (Scoping Memo).

SoCalGas served prepared written testimony concurrently with its application. The testimony included more than a dozen tables and schedules which together purport to show that SoCalGas has a need to issue additional debt to finance capital expenditures and to refinance maturing long-term debt. On March 6, 2013, SoCalGas filed a motion to admit its prepared testimony into the evidentiary record. The motion was granted in a ruling issued by the assigned Administrative Law Judge (ALJ) on March 22, 2013.

The Scoping Memo directed SoCalGas to file statements of cash flows for each of the years 2012 - 2015. SoCalGas filed the documents on March 6, 2013.

On March 4, 2013, the assigned ALJ sent an email to the service list that asked SoCalGas to provide information about the fees it had paid previously pursuant to Public Utilities Code Section (Pub. Util. Code §) 1904(b). SoCalGas provided the information in an email to the service list on March 6, 2013.

3. Existing Authority to Issue Debt and Equity

The following table shows the amount of long-term debt and equity that SoCalGas is authorized to issue by prior Commission decisions, the amount of debt and equity issued pursuant to these decisions, and the remaining unused authority to issue debt and equity:

Table 1 Previously Authorized Debt and Equity (\$ million)						
	Authorized		Issued		Unused Authority	
<u>Decision</u>	<u>Long-Term Debt</u>	<u>Preferred Stock</u>	<u>Long-Term Debt</u>	<u>Preferred Stock</u>	<u>Long-Term Debt</u>	<u>Preferred Stock</u>
D.96-09-036	600	100	600	000	000	100
D.03-07-008	715	--	715	--	000	--
D.06-07-012	400	100	400	000	000	100
D.09-09-046	800	--	418	--	382	--
Total	\$2,515	\$200	\$2,133	\$000	\$382	\$200

Table 1 shows that the Commission previously authorized SoCalGas to issue \$2.515 billion of long-term debt and \$200 million of preferred stock, for a combined total of \$2.715 billion.² Table 1 further shows that SoCalGas has unused authority to issue \$382 million of long-term debt pursuant to D.09-09-046, unused authority to issue \$100 million of preferred stock pursuant to D.06-07-012, and unused authority to issue \$100 million of preferred stock pursuant D.96-09-036, for total unused authority of \$582 million.

4. Summary of the Application

4.1. Requested Authorizations and Findings

In A.12-12-003, SoCalGas asks the Commission to issue an order pursuant to Pub. Util. Code §§ 816 - 818 and 851 that contains the following:

² SoCalGas refers to the preferred stock authorized by D.06-07-012 and D.96-09-036 as “preferred and preference securities.” Today’s decision uses the term “preferred stock,” the same term used by D.06-07-012 and D.96-09-036. (See, e.g., D.06-07-012 at 1, 2, and Ordering Paragraph (OP) 1; and D.96-09-036 at OP 1.h.)

1. Authority to issue Debt Securities in an aggregate principal amount not to exceed \$1.5 billion. The principal amount, terms, and conditions of each issuance of Debt Securities will be determined by SoCalGas's management and/or board of directors based on market conditions at the time of issuance.
2. Authority to use specified debt enhancement features and derivative transactions with respect to the Debt Securities in order to lower the cost and/or improve the terms and conditions of the Debt Securities for the benefit of ratepayers.
3. Authority to hedge the planned issuances of Debt Securities within the limits established by the Financing Rule.
4. Authority to apply the debt enhancement features and hedging strategies that are authorized by the Commission's order to (i) the \$382 million of long-term debt that SoCalGas may issue pursuant to D.09-09-046; the \$100 million of preferred stock that SoCalGas may issue pursuant to D.06-07-012; and (iii) the \$100 million of preferred stock that SoCalGas may issue pursuant to D.96-09-036.
5. A finding pursuant Pub. Util. Code § 818 that the money, property or labor to be procured or paid for by the Debt Securities is reasonably required for the purposes specified in the Commission's order, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.
6. Making the authority granted by the Commission's order effective upon payment of the fee required by Pub. Util. Code § 1904(b).
7. Providing that the authority granted by the Commission's order is in addition to the authority granted by D.09-09-046, D.06-07-012, and D.96-09-036.
8. Granting such additional authorizations as the Commission may deem appropriate.

4.2. Use of Proceeds

SoCalGas requests authority to issue \$1.5 billion of Debt Securities for the following two purposes: (1) refinance \$250 million of long-term debt that matures in 2014, and (2) finance construction expenditures for new utility plant

during the three-year period of 2013 - 2015. The following table shows SoCalGas's forecast of its cash requirements for the years 2013 - 2015:

Table 2 SoCalGas Forecasted Cash Requirements for Years 2013 - 2015 (\$ millions)				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
<u>Uses of Cash</u>				
Construction Expenditures	(940)	(1,165)	(1,110)	(3,215)
Maturing Long-Term Debt	- -	(250)	- -	(250)
Preferred Stock Dividend	(1)	(1)	(1)	(3)
Beginning Cash Balance	<u>65</u>	<u>54</u>	<u>58</u>	<u>65</u>
Subtotal	(876)	(1,362)	(1,053)	(3,403)
Less: Estimated Cash From Internal Sources	<u>580</u>	<u>670</u>	<u>720</u>	<u>1,970</u>
External Funds Required	(296)	(692)	(333)	(1,433)
External Funds Provided:				
Long-term debt (A.12-12-003)	<u>350</u>	<u>750</u>	<u>400</u>	<u>1,500</u>
Ending of Cash Balance	54	58	67	67

Table 2 shows that over the three-year period of 2013 - 2015, SoCalGas forecasts it will need \$3.468 billion of cash to pay for construction expenditures (\$3.215 billion), maturing long-term debt (\$250 million), and preferred stock dividends (\$3 million). Table 2 further shows that SoCalGas will obtain the necessary cash from internal sources (\$1.97 billion) and from issuing the Debt Securities requested in A.12-12-003 (\$1.5 billion), leaving SoCalGas with a net increase in its cash balance of \$2 million (i.e., an increase from \$65 million to

\$67 million) at the end of 2015. Notably, SoCalGas does not forecast any dividend payments to its parent company.³

In its PHC statement filed on February 8, 2013, SoCalGas acknowledged that it has unused authority to issue \$382 million of long-term debt pursuant to D.09-09-046, and that SoCalGas has no plans to use this authority. SoCalGas states that the \$382 million of existing authority provides flexibility to address unforeseen cash needs. SoCalGas believes it is prudent to avoid a situation where its borrowing authority is exhausted because it can take the Commission up to 18 months to approve an application to issue debt. Thus, SoCalGas contends the entire \$1.5 billion of borrowing authority requested in A.12-12-003 should be approved, rather than subtracting \$382 million of existing authority.

4.3. Types of Debt Securities

SoCalGas seeks authority to issue the same types of long-term debt securities that were approved by the Commission in D.09-09-046. The requested Debt Securities will have a maturity in the range of 12 months to 100 years, depending on the type of Debt Security. The specific types of Debt Securities requested by SoCalGas are described below.

Secured debt is debt secured by a lien on utility property or through other credit-enhancements described in Section 4.4 below. First mortgage bonds (FMBs) will conform to SoCalGas's trust indenture dated October 1, 1940, as amended and supplemented. In certain instances, SoCalGas may contract with a third party to provide credit facilities as security for a secured debt issue. The

³ SoCalGas's Statement of Cash Flows for 2012 that was filed on March 6, 2013, shows SoCalGas paid \$100 million of dividends to its parent company in 2010, \$50 million in 2011, and \$250 million in 2012, for a total of \$400 million during 2010 - 2012.

cost of the credit facilities will be included in determining the issue's overall cost. Because secured debt would be an encumbrance on utility property, SoCalGas requests authority for the encumbrance under Pub. Util. Code § 851.

Unsecured debt, also known as "debentures," may be senior or subordinated debt.

Foreign capital markets can provide debt capital denominated in United States (U.S.) dollars or other currencies. SoCalGas states that competition among global investors and investment banks may create low-cost offshore funding opportunities. There may also be situations where a domestic utility finds international markets more accessible than domestic markets.

Medium-term notes (MTNs) are usually non-callable, unsecured, senior debt securities with investment-grade credit ratings. MTNs can carry either fixed or variable rates of interest. They can also be backed with certain issuer assets like accounts receivable. Many MTN programs permit the borrower to bypass financial intermediaries and sell debt directly to investors. And unlike corporate bonds, which are typically sold in large, discrete offerings, MTNs are normally sold in small amounts either on a continuous or intermittent basis.

Direct long-term loans are obtained under a line of credit with banks, insurance companies, or other financial institutions. SoCalGas may obtain long-term loans when it finds that interest rates or other circumstances make it attractive to do so.

Accounts-receivable financing consists of debt secured by a pledge, sale, or assignment of accounts receivable. Such transactions would likely be structured as a true sale for bankruptcy purposes, a sale for financial reporting, and debt for tax purposes, although other structures may be developed. Because accounts-

receivable financing would be an encumbrance on utility property, SoCalGas requests authority under Pub. Util. Code § 851 to encumber utility property.

Variable-rate debt pays interest based on the prime rate of banks, bankers' acceptances, or some other referenced interest rate. A variable-rate debt security may incorporate put options that require SoCalGas to repurchase all or a portion of the debt security, which may be coupled with a remarketing obligation by SoCalGas of the repurchased debt securities. Certain variable-rate debt securities require credit support, such as a short-term or long-term bank line agreement. Because these credit facilities are an integral part of the variable-rate debt issuance, SoCalGas states that such facilities (and any borrowing thereunder) should not count against the Debt Securities authorized by the Commission.

"Fall-away" mortgage bonds consist of debt that is initially secured and subsequently convertible into unsecured debt. These senior notes are initially secured under their indenture by collateral FMBs issued in equal principal amount and delivered to the fall-away indenture trustee. Subsequent to the redemption or maturity of all outstanding FMBs (other than the collateral FMBs held by the fall-away indenture trustee) the fall-away bonds will become unsecured general obligations of SoCalGas. The fall-away bonds' indenture will require the newly-unsecured obligations to be secured equally with any secured bonds that may be issued in the future.

Finally, subordinated debt is junior in right of payment to secured debt and senior unsecured debt.

4.4. Debt Enhancements

SoCalGas requests authority to use the same types of debt enhancements and derivative transactions (together, "debt enhancements") that were approved by D.09-09-046 with respect to the Debt Securities. The purpose of the debt

enhancements is to lower the cost of Debt Securities and/or improve the terms and conditions of Debt Securities for the benefit of the ratepayers. The cost of the debt enhancements will be used to determine the total cost of Debt Securities. The types of debt enhancements requested by SoCalGas are described below.

Put options provide the owner of a Debt Security with the right to sell the security to SoCalGas under specified terms and conditions. Investors may be willing to accept a lower interest rate on Debt Securities in exchange for a put option that protects the value of the owner's investment in Debt Securities.

Call options provide SoCalGas with the right to retire debt before the scheduled maturity date. The benefit of a call option is that it allows SoCalGas, should market rates fall, to replace outstanding debt with lower-cost debt.

Sinking funds usually operate in one of two ways. First, SoCalGas may set aside money periodically so there is a pool of cash available to redeem the issue at maturity. Second, SoCalGas may periodically redeem a specified portion of the bond issue, normally by either calling a certain number of bonds or purchasing the bonds in the open market. SoCalGas anticipates that the cost of Debt Securities may be reduced by the use of a sinking fund.

Interest-rate swaps are a contract between two parties to exchange a series of payments for a stated period. Typically, one party pays the other fixed-rate interest while, in turn, the other pays floating-rate interest, both payment obligations being based on a notional principal amount (i.e., no principal is exchanged). Swaps are generally used to reduce either fixed-rate or floating-rate costs, or to convert fixed-rate borrowing to floating.

Swaptions are contracts that give the right to enter into a swap agreement (or to exit a swap). The swaption's strike price, maturity, size, and structure can be tailored to suit a party's needs. SoCalGas may use swaptions to hedge an

existing or anticipated exposure while retaining the ability to benefit from an advantageous change in interest rates.

Caps and collars limit the interest rate paid on variable-rate debt. A “cap” is a negotiated maximum interest rate on variable-rate debt. In that case, even if the variable rate rises above the cap (or “ceiling”) rate, SoCalGas would only pay the ceiling rate. In addition to the ceiling rate, a counterparty may desire a “floor” rate. If the variable rate falls below the floor rate, SoCalGas would pay the floor rate. The combination of a floor and a ceiling rate is called an interest-rate collar because SoCalGas’s interest expense is restricted to a band negotiated by SoCalGas and the counterparty.

Currency swaps are an arrangement where one party agrees to make periodic payments in its domestic currency, based on either fixed or floating interest rates, to a counterparty who in turn makes periodic payments to the first party in a different currency. The payments are based on principal amounts that are exchanged at the initiation of the swap and re-exchanged at maturity. Currency swaps are useful for the management of exchange risk created by Debt Securities denominated in foreign currencies.

Credit enhancements are credit-support arrangements such as letters of credit, standby bond purchase agreements, surety bonds, and insurance policies. Credit enhancements may reduce interest costs or improve other credit terms.

Capital replacement refers to an issuer’s declaration of intent, or in some cases its covenant, to replace debt securities with new securities that receive similar or better rating-agency equity credit. For example, SoCalGas may specify that it intends to replace Debt Securities when redeemed with new securities having similar, or more equity-like, characteristics.

Interest deferral is a feature that permits discretionary deferral of interest payments on subordinated Debt Securities during an extension period. The deferral period will not extend beyond the maturity date of the subordinated Debt Securities. SoCalGas may be obligated to pay accrued interest at the end of the extension period; however, in certain cases, claims for deferred interest payments may be waived in part or in whole.

Special-purpose entity transactions involve SoCalGas and a special-purpose entity (SPE) that is a subsidiary or other affiliate of SoCalGas. Although the structure of transactions may vary, the SPE would typically issue long-term debt securities to the investment community. The proceeds from the debt issued by the SPE would then be loaned to SoCalGas through the issuance of Debt Securities featuring terms and conditions specified by SoCalGas at the time of issuance. This type of transaction can result in SoCalGas obtaining external capital which qualifies as having equity-like characteristics for the credit rating agencies but which SoCalGas can treat as debt for tax purposes.

Delayed drawdown is a feature allows SoCalGas to issue debt where the full principal amount is not borrowed immediately, but in a series of disbursements over a period of time.

4.5. Hedging the Issuance of Debt Securities

SoCalGas requests authority to hedge the planned issuance of Debt Securities using the same types of hedging strategies that were approved by D.09-09-046. Issuance-hedging strategies enable SoCalGas to enter financial markets when circumstances appear most favorable. For example, there may be circumstances where SoCalGas has an immediate need for funds but is reluctant to fix its cost at prevailing interest rates. The specific types of hedging strategies requested by SoCalGas are identified below.

Fund today, price later strategies. These hedges allow SoCalGas to fund immediately and price Debt Securities at some future date.

1. **Long hedge.** This approach allows SoCalGas to issue debt now and capture its current credit spread, but leaves open the all-in cost of the debt. SoCalGas establishes a long hedge by issuing debt today and investing the proceeds in Treasury securities of a comparable maturity. If interest rates subsequently decline, the gain in the value of the Treasury portfolio will compensate SoCalGas for the lost opportunity to finance at lower rates. On the other hand, if rates rise, the interest expense savings realized by issuing immediately will be offset by the decline in value of the Treasury portfolio. Thus, the Treasury component of SoCalGas's effective borrowing cost will be determined by the Treasury rates prevailing when it chooses to unwind the hedge; the credit spread is determined at the time of issuance.

2. **Treasury options.** This is an alternative to the long hedge. Under this approach, SoCalGas would issue securities today and purchase call options on Treasury securities of a comparable maturity. The call option allows the holder to purchase Treasury securities at a specified yield (the "strike yield") any time before the expiration date. If rates decline below the strike yield, exercising the option produces a gain used to offset the interest cost of the securities issued today. If interest rates rise above the strike yield, the option will expire unexercised. In this case SoCalGas benefits from the lower borrowing rate.

3. **Interest-rate swaps.** A forward-starting interest-rate swap allows SoCalGas to issue securities immediately and benefit from a subsequent fall in interest rates. Under this approach, SoCalGas is the floating-rate payer in an interest-rate swap. If interest rates decline, unwinding the swap at a profit will compensate SoCalGas for the lost opportunity to finance at lower rates.

Conversely, if rates rise, the interest expense savings realized by issuing immediately will be offset by the loss caused by unwinding the swap.

Price today, fund later strategies. These hedges allow SoCalGas to lock in today's interest rate and issue securities at some later date.

1. Treasury lock. This approach locks in the Treasury component of borrowing costs. SoCalGas can delay the issuance of debt and capture the current Treasury yield by selling short Treasury securities (i.e., selling Treasury securities it does not own) of a maturity comparable to the planned debt issuance. If interest rates rise, SoCalGas will cover its short Treasury position at a profit, which will be offset by the higher interest cost for the newly issued debt. If interest rates decline, SoCalGas will cover its short Treasury position at a loss, which will be offset by the lower interest cost for the newly issued debt.

2. Treasury options. The purchase of Treasury put options is an alternative to the Treasury lock. In this transaction, SoCalGas would purchase put options entitling it to sell Treasury securities of a maturity comparable to that of the contemplated security issuance at a specified yield (the "strike yield") at any time before the option's expiration date. If interest rates rise above the put's strike yield, SoCalGas will exercise the put and the resulting profit offsets the increased cost of borrowing. If interest rates decline, SoCalGas will let the option expire worthless and issue securities at prevailing lower rates.

3. Interest-rate swaps. A forward-starting interest-rate swap allows SoCalGas to delay the issuance of debt but capture current yields. Under this approach, SoCalGas is the fixed-rate payer in an interest-rate swap. If interest rates rise, unwinding the swap at a profit offsets higher borrowing costs. If rates decline, lower borrowing costs offset the loss caused by unwinding the swap.

4.6. Estimated Cost of the Debt Securities

SoCalGas provided the following estimate of the cost of the requested Debt Securities, assuming that A.12-12-003 is granted and \$1.5 billion of Debt Securities are issued in accordance with the timeframe forecasted in A.12-12-003:

Table 3 Debt Issuances by Year							
A	B	C	D	E	F	G	H
Date Issued	Principal (\$000)	Term (Years)	Coupon Rate	Annual Interest (\$000)	Issuance Fees (\$000)	Amortized Issuance Fees (F ÷ 30) (\$000)	Total Annual Costs (E + G) (\$000)
Oct. 2013	350,000	30	4.410%	15,435	3,313	110	15,545
Oct. 2014	500,000	30	4.815%	24,075	4,625	154	24,229
Nov. 2014	250,000	30	4.815%	12,038	2,438	81	12,119
Oct. 2015	400,000	30	5.094%	20,376	3,750	125	20,501
Total	\$1,500,000			71,924	14,126	471	72,395
Total Costs for 30 Years							2,171,850

Table 3 shows that SoCalGas forecasts it will issue \$1.5 billion of Debt Securities with a maturity of 30 years at an annual cost of \$72.395 million, assuming all the Debt Securities are issued and outstanding. The total forecasted cost is \$2.172 billion over the 30-year life of the Debt Securities.

The estimated costs shown in Table 3 are limited to interest expense and amortized issuance costs. Table 3 does not include repayment of principal, the costs and benefits of debt enhancements and hedges, if any, or the fee that SoCalGas must pay under Pub. Util. Code § 1904(b) for authority to issue debt.

5. Discussion**5.1. Authority to Issue Long-Term Debt Securities**

SoCalGas's application for authority to issue \$1.5 billion of long-term Debt Securities is subject to Pub. Util. Code §§ 816 - 818. Section 816 provides the Commission with broad discretion to determine if a utility should be authorized to issue long-term debt securities, and to attach conditions to the issuance of debt securities in order to protect and promote the public interest.

Pub. Util. Code § 817 provides that a public utility may issue long-term debt only for the purposes specified in § 817. Here, SoCalGas requests authority to issue \$1.5 billion of Debt Securities for the following purposes: (1) refinance \$250 million of long-term debt that matures in 2014, and (2) fund construction expenditures for new utility plant through 2015. We find these two purposes are permitted by Pub. Util. Code § 817(b), which authorizes the issuance of long-term debt for the construction, completion, extension, or improvement of facilities; by § 817(c), which authorizes the issuance of long-term debt for the improvement or maintenance of service; and by § 817(d), which authorizes the issuance of long-term debt for the discharge or lawful refunding of the utility's obligations.

Pub. Util. Code § 818 provides that a public utility may not issue long-term debt unless it has first secured a Commission order authorizing the issue, stating the amount thereof, and the purposes to which the proceeds thereof are to be applied. Section 818 further requires the Commission to find that the money, property, and/or labor to be procured with the debt proceeds are reasonably required for the purposes specified in the order, and that such purposes are not, in whole or in part, reasonably chargeable to expenses or to income.

In accordance with § 818, we find that SoCalGas has demonstrated (1) a reasonable need to issue \$1.5 billion of long-term debt during the 3-year period of 2013 - 2015 to finance construction expenditures and to re-finance \$250 million of maturing long-term debt; and (2) these purposes are not reasonably chargeable to expenses or income. However, the record of this proceeding shows that SoCalGas has unused authority from D.09-09-046 to issue \$382 million of long-term debt and no plans to issue this debt. We interpret D.09-09-046 as allowing the \$382 million to be used for the purposes authorized by today's decision.⁴

We conclude pursuant to Pub. Util. Code § 818 that SoCalGas's request to issue \$1.5 billion of Debt Securities during 2013 - 2015 should be reduced by \$382 million, the amount of SoCalGas's existing unused authority. The net amount of new long-term debt authorized by today's decision is \$1.118 billion (i.e., \$1.5 billion less \$382 million).

The cost of the Debt Securities authorized by today's decision will depend on market conditions when the debt is issued. SoCalGas forecasts the annual cost of the \$1.118 billion of Debt Securities authorized by today's decision (i.e., interest costs plus amortized interest costs) will be \$54.0 million once all of the debt is issued and outstanding.⁵ The ratemaking treatment for the cost of the Debt Securities is addressed in Section 5.5.3 of today's decision.

⁴ D.09-09-046 at 2, 3-5, and OP 1.

⁵ Table 3 in Section 4.6 of today's decision shows that SoCalGas forecasts the annual cost for \$1.5 billion of Debt Securities will be \$72.4 million. Today's decision authorizes \$1.118 billion of Debt Securities, which reduces the annual cost to \$54.0 million $((\$1.118 \text{ billion} \div \$1.5 \text{ billion}) \times \$72.4 \text{ million})$. The forecasted cost assumes that all the Debt Securities authorized by today's decision are issued and

Footnote continued on next page

SoCalGas argues that its request to issue \$1.5 billion of Debt Securities should not be reduced by \$382 million. SoCalGas contends that because regulatory approval to issue debt can take up to 18 months, the \$382 million of existing authority will enable SoCalGas to address unforeseen cash needs while a new application is processed by the Commission.

We are not persuaded by SoCalGas's argument. Pub. Util. Code § 818 requires the Debt Securities authorized by today's decision to be reasonably required for purposes specified in today's decision.⁶ The record of this proceeding shows that all of SoCalGas's forecasted need to issue long-term debt through 2015 for the purposes authorized by today's decision can be satisfied with \$382 million of long-term debt authorized by D.09-09-046 and \$1.118 billion of Debt Securities authorized by today's decision. Consequently, we are unable to find pursuant to § 818 that SoCalGas has a reasonable need to issue more than \$1.118 billion of Debt Securities.

We disagree with SoCalGas's position that it should maintain \$382 million of reserve capacity to issue long-term debt because, in the event that SoCalGas needs to issue more long-term debt than authorized by today's decision, it may take up to 18 months for the Commission to approve an application to issue

outstanding. The forecasted cost excludes (i) repayment of principal; (ii) costs and benefits for debt enhancements and hedges, if any; and (iii) the fee required by Pub. Util. Code § 1904(b).

⁶ Pub. Util. Code § 818 states: "No public utility may issue... [long-term debt] unless... it shall first have secured from the commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied, and that, in the opinion of the commission, the money, property, or labor to be procured or paid for by the issue is reasonably required for the purposes specified in the order, and that... such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income."

long-term debt. The Commission typically issues decisions on financing applications in much less time than 18 months, as demonstrated by today's decision. Furthermore, it is incumbent upon SoCalGas to monitor its financing needs and to file a timely application. In any event, if SoCalGas needs capital prior to its next financing application, SoCalGas has significant sources of cash that it can tap on an interim basis until its next financing application is submitted, reviewed, and approved, as appropriate. These sources of cash include \$200 million of preferred stock authorized by D.06-07-012 and D.96-09-036, short-term debt that SoCalGas can issue without Commission authorization, and substantial cash flow from its regulated operations.⁷

5.2. Authority to Encumber Utility Assets

SoCalGas requests authority under Pub. Util. Code § 851 to issue Debt Securities secured by utility property (first mortgage bonds) or its accounts receivable (accounts-receivable financing).

Pub. Util. Code § 851 provides that a utility shall neither dispose of nor encumber any part of its plant, system, or other property necessary or useful in the performance of its duties to the public without prior approval from the Commission. The Commission has broad discretion under § 851 to authorize or deny an encumbrance of utility property. The primary standard used by the Commission is whether the encumbrance will adversely affect the public interest. When necessary, the Commission may attach conditions to an encumbrance in order to protect and promote the public interest.

⁷ SoCalGas's statement of cash flows for 2012 shows that for the 3-year period of 2010 through 2012, SoCalGas's net cash flows from operations were \$2.136 billion, and that SoCalGas's expenditures for property, plant, and equipment were \$1.825 billion

There is no evidence in the record of this proceeding that granting SoCalGas's request for authority under § 851 to issue Debt Securities secured by utility property or accounts receivable will adversely affect the public interest. To the contrary, SoCalGas represents that secured debt may cost less than unsecured debt, resulting in a lower cost of capital for ratepayers. Therefore, consistent with Commission policy, SoCalGas's request is granted.

The authority to encumber utility property does not include authority to dispose of encumbered property that is used and useful in the provision of utility service to the public. If a default occurs and title to any of SoCalGas's plant, system, or property that is necessary or useful in the performance of SoCalGas's duties to the public is transferred pursuant to terms of the secured debt indenture, the thing transferred shall continue to be used to provide utility service to the public until the Commission authorizes otherwise.

5.3. Types of Debt Securities

SoCalGas seeks authority to issue the following types of Debt Securities: secured debt, unsecured debt, debt issued in foreign capital markets, medium-term notes, direct long-term loans, accounts-receivable financing, variable-rate debt, fall-away mortgage bonds, and subordinated debt. The requested types of Debt Securities are described in Section 4.3 of today's decision, and are the same types that SoCalGas was authorized to issue in D.09-09-046.⁸

As a general principle, we believe that public utilities should have reasonable latitude regarding the types of debt they may issue in order to obtain the lowest cost of capital for ratepayers. A utility's request to issue a specific

⁸ D.09-09-046 at 1.

type of debt security should be denied only if the requested type is unduly risky or for other good cause. That is not the case here. Accordingly, we will grant SoCalGas's request to issue the previously identified types of Debt Securities.

As noted in A.12-12-003, the variable-rate debt authorized by today's decision may require credit support such as bank lines of credit. We agree with SoCalGas that such credit-line agreements should not count against the amount of long-term debt issued by SoCalGas, provided that any borrowings under the credit line are used to pay off variable-rate debt so that both forms of debt are not outstanding at the same time.

5.4. Debt Enhancements and Hedges

SoCalGas seeks authority to use the following types of debt enhancements: put options, call options, sinking funds, interest-rate swaps, swaptions, caps and collars, currency swaps, credit enhancements, capital replacement, interest deferral, special-purpose entity transactions, and delayed drawdown. SoCalGas also requests authority to use the following types of issuance hedging strategies: the price today, fund later strategy, and the fund today, price later strategy. The Commission authorized SoCalGas to use the same types of debt enhancements and hedging strategies in D.09-09-046.⁹

In D.12-06-015, the Commission authorized utilities to use debt enhancements and hedges for debt securities, subject to after-the-fact review by the Commission. The only requirement that a utility must satisfy in a financing application is to provide "a brief description and rationale for the potential use of a debt enhancement or the risk management properties associated with the

⁹ D.09-09-046 at 1-2, 7-8, and OP 4.

potential use of a derivative instrument to hedge risk exposure.¹⁰ SoCalGas provided the required “description and rationale” in A.12-12-003. To reiterate, SoCalGas represents that the requested debt enhancements and hedging strategies will be used to lower the cost of debt and/or to obtain better terms and conditions for the benefit of ratepayers.

For the preceding reasons, SoCalGas is authorized to use the requested debt enhancements and hedging strategies, subject to the following restrictions set forth in D.12-06-015 for swaps and hedges:¹¹

- i. Utilities shall list in their General Order 24-C reports to the Commission any interest income and expense from swaps and hedges during the period covered by the report.
- ii. Swaps and hedges shall not exceed 20% of a utility’s total long-term debt outstanding.
- iii. All costs associated with hedging transactions are subject to review in the utility’s next regulatory proceeding addressing its cost of capital.
- iv. Hedging transactions carrying potential counterparty risk must have counterparties with investment grade credit ratings.
- v. If a swap or hedge is terminated before the original maturity, all termination-related costs are subject to review in the utility’s next regulatory proceeding addressing its cost of capital.
- vi. Utilities shall provide the following to Commission Staff within 30 days of receiving a written request: (i) all terms, conditions, and details of swap and hedge transactions; (ii) rationale(s) for the swap and hedge transactions; (iii) estimated costs for the “alternative” or un-hedged transactions; and (iv) copy of the swap and hedge agreements and associated documentation.

¹⁰ D.12-06-015 at 28-30 and Attachment A at A-5, as corrected by D.12-07-003.

¹¹ D.12-06-015 at 29 and Attachment A at A-5, as corrected by D.12-07-003.

The authority granted by today's decision to use debt enhancements and hedging strategies is limited to the \$1.118 billion of Debt Securities authorized by today's decision.

We next address SoCalGas's request for authority to use the same types of debt enhancements and hedging strategies authorized by today's decision with respect to (1) the \$382 million of long-term debt that SoCalGas may issue pursuant to D.09-09-046, (2) the \$100 million of preferred stock that SoCalGas may issue pursuant to D.06-07-012, and (3) the \$100 million of preferred stock that SoCalGas may issue pursuant to D.96-09-036.¹² As a preliminary matter, SoCalGas's request is moot with respect to the \$382 million of long-term debt authorized by D.09-09-046, as that decision authorized SoCalGas to use the same types of debt enhancements and hedges that we authorize in today's decision.¹³

We decline to grant SoCalGas's request for authority to use the debt enhancements and hedging strategies authorized by today's decision with respect to the preferred stock authorized by D.06-07-012 and D.96-09-036. SoCalGas's request is contrary to D.12-06-015 wherein the Commission held that debt enhancements and hedging strategies "shall only be used in connection with debt securities financings."¹⁴ Preferred stock is not a "debt security" within

¹² A.12-12-003 at 16, Items 2 and 7.

¹³ The debt enhancements and hedging strategies described in Sections 4.4 and 4.5 of today's decision are the same as the debt enhancements and hedging strategies approved by D.09-09-046 at 1-2, 7-8, and OP 4.

¹⁴ D.12-06-015 at 29 and Attachment A at A-5. D.12-06-015 treats hedging strategies as a type of debt enhancement. (D.12-06-015 at 3-4, 29, and Finding of Fact 12.)

the meaning of D.12-06-015.¹⁵ Therefore, the debt enhancements and hedging strategies authorized by today's decision cannot be extended to the preferred stock that SoCalGas may still issue pursuant to D.06-07-012 and D.96-09-036.¹⁶

5.5. Other Regulatory Requirements

5.5.1. Financing Rule

The Financing Rule adopted by D.12-06-015 includes the following regulations regarding the issuance of new debt securities:

- Public utilities must issue debt in a prudent manner, consistent with market standards that encompass competition and transparency, with the goal of achieving the lowest long-term cost of capital.
- Public utilities must determine the financing terms of debt issues with due regard for their full financial condition and requirements, and current and anticipated market conditions.
- Public utilities may choose whether to issue debt securities via competitive or negotiated bid, as long as the basis for the method is chosen to achieve the lowest cost of capital.
- Public utilities with annual operating revenues of \$25 million or more must make every effort to encourage, assist, and recruit Women-, Minority-, Disabled Veteran-Owned Business Enterprises in being appointed as lead underwriter, book runner or co-manager of debt securities offerings.

¹⁵ D.96-09-036 treats preferred stock as equity capital for regulatory purposes. (D.96-09-036, 1996 Cal Lexis 903 at *19 - *21, *25, and OP 1.h at *33.)

¹⁶ SoCalGas is authorized by D.06-07-012 to use certain types of debt enhancements and hedging strategies with respect to the preferred stock issued pursuant to that decision. (D.06-07-012 at OP 3.) Similarly, SoCalGas is authorized by D.96-09-036 to use certain types of debt enhancements and hedging strategies with respect to the preferred stock issued pursuant to that decision. (D.96-09-036 at OPs 1.l and 2.) Today's decision does not address whether D.12-06-015 affects SoCalGas's authority under D.06-07-012 and D.96-09-036 to use debt enhancements and hedging strategies with respect to preferred stock.

- Public utilities may use debt enhancements and hedges for debt securities, subject to certain restrictions and reporting requirements.

The Financing Rule applies to SoCalGas and the Debt Securities, debt enhancements, and hedging strategies authorized by today's decision.¹⁷

5.5.2. General Order 24-C

General Order (GO) 24-C requires public utilities that issue debt or equity to file a semiannual report¹⁸ with the Commission that includes the following information for the applicable semiannual period:

1. A description of the debt and equity issued during the semiannual period, if any, including the principal amount of each issuance, the commissions paid for each issuance, and the net proceeds received for each issuance.
2. The total amount of stock issued and outstanding at the end of the semiannual period, including the total number of shares issued and the par value, if any, of such shares.
3. The total bonds and other debt issued and outstanding at the end of the semiannual period, including the principal amount of such bonds and other debt.
4. The expenditures of debt and equity proceeds during the semiannual period and the purposes for which these expenditures were made. Expenditures must be reported in a way that allows the Commission to ascertain the utility's compliance with Pub. Util. Code § 817 and the related authorizing decision.

In addition to the previously enumerated requirements, GO 24-C requires utilities to maintain records which demonstrate that the proceeds from the

¹⁷ The Financing Rule includes the restrictions on swaps and hedges identified in Section 5.4 of today's decision.

¹⁸ Utilities must file their GO 24-C reports quarterly for each calendar quarter through June 2013. Thereafter, utilities may file reports semiannually.

issuance of debt and equity have been used in a manner authorized by Pub. Util. Code § 817 and the related authorizing decision. Utilities must make the records available to Commission staff upon written request.

GO 24-C applies to SoCalGas and the Debt Securities, debt enhancements, and hedging strategies authorized by today's decision.

5.5.3. Ratemaking and Pub. Util. Code § 451

Today's decision provides SoCalGas with authority to issue \$1.118 billion of Debt Securities for two purposes: (1) refinance \$250 million of long-term debt that matures in 2014, and (2) finance construction expenditures during 2013 - 2015. The authority granted by today's decision is subject to the condition that SoCalGas shall maintain its Commission-approved capital structure.

The authority to issue Debt Securities is separate from the authority to recover the cost of the Debt Securities in rates and to undertake the construction projects financed with the Debt Securities. The all-in cost of the Debt Securities will be reviewed in SoCalGas's cost-of-capital proceedings or other appropriate proceedings; and the construction expenditures financed with the proceeds from the Debt Securities will be reviewed in general rate case proceedings, capital project-specific proceedings, or other appropriate proceedings. Based on these reviews, the Commission will determine whether the cost of the Debt Securities and the related construction expenditures may be recovered in rates pursuant to Pub. Util. Code § 451, which states as follows:

All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful.

Every public utility shall furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities, including telephone facilities, as defined in Section 54.1 of the Civil Code, as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public.

5.5.4. Regulatory Fee Levied by Pub. Util. Code § 1904(b)

Pub. Util. Code § 1904(b) requires SoCalGas to pay a fee for the Debt Securities authorized by today's decision (hereafter, "§ 1904(b) fee"). The § 1904(b) fee does not apply to the portion of the Debt Securities that will be used to refinance maturing long-term debt on which the fee was paid previously.

Today's decision authorizes SoCalGas to issue \$1.118 billion of Debt Securities, of which \$250 million will be used to refinance \$250 million of maturing long-term debt on which the fee was paid previously.¹⁹ Therefore, the net amount of Debt Securities subject to the § 1904(b) fee is \$868 million (i.e., \$1.118 billion less \$250 million). The following table shows the calculation of the § 1904(b) fee for the Debt Securities authorized by today's decision:

§ 1904(b) Fee for \$868,000,000 of Debt Securities		
Amount	Rate	Fee
\$1,000,000	\$2 per \$1,000	\$2,000
\$9,000,000	\$1 per \$1,000	\$9,000
\$858,000,000	\$0.50 per \$1,000	\$429,000
\$868,000,000		\$440,000

¹⁹ SoCalGas states in an email to the service list on March 6, 2013, that the maturing long-term debt was authorized by D.06-07-012 and D.03-07-008, and that SoCalGas paid the applicable § 1904(b) fee in accordance with those decisions.

SoCalGas shall pay the § 1904(b) fee shown in the above table no later than 30 days from the effective date of today's decision. The authority granted by today's decision will become effective upon the payment of the § 1904(b) fee.

5.6. California Environmental Quality Act

The California Environmental Quality Act (CEQA) applies to projects that require discretionary approval from a governmental agency, unless exempted by statute or regulation. It is well established that the creation of government funding mechanisms or other government fiscal activities which do not involve a commitment to a specific project that may result in a potentially significant impact on the environment is not a "project" subject to CEQA.²⁰

Today's decision does not authorize any capital expenditures or construction projects. Therefore, the Debt Securities authorized by today's decision are exempt from CEQA. To ensure compliance with CEQA, SoCalGas shall not use the proceeds from the Debt Securities to fund any project until the required CEQA review and approval for the project, if any, has been completed.

6. Categorization and Need for Hearings

In Resolution ALJ 176-3306, dated December 20, 2012, the Commission preliminarily categorized this proceeding as ratesetting and preliminarily determined that a hearing is necessary. The categorization of this proceeding as ratesetting was affirmed and finalized by the Scoping Memo.

There were no protests or responses to A.12-12-003, and no factual issues were raised at the prehearing conference or since then. Based on these

²⁰ CEQA Guidelines, Title 14 of the California Code of Regulations, Division 6, Chapter 3, Article 20, Section 15378(b)(4). See also Cal. Pub. Res. Code § 21080(b)(8).

circumstances, we hereby change the preliminary determination that a hearing is necessary. We now find that a hearing is not necessary.

7. Comments on the Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311, and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on April 29, 2013, by SoCalGas. There were no reply comments.

In response to SoCalGas's comments, we have removed the requirement that the only construction expenditures which may be financed with the Debt Securities authorized by today's decision are those expenditures that occur during 2013 - 2015. Today's decision does not place a time limit on the construction expenditures that may be financed with the authorized Debt Securities. We conclude that it is not prudent to place SoCalGas in a "use it or lose it" situation regarding its authority to issue Debt Securities for the purpose of financing construction expenditures. Rather, SoCalGas should have flexibility to time the issuance of Debt Securities to finance construction expenditures based on the changing needs of its customers, internal cash flow, fluctuating capital markets, and other relevant factors.

8. Assignment of the Proceeding

Mark J. Ferron is the assigned Commissioner for this proceeding and Timothy Kenney is the assigned ALJ.

Findings of Fact

1. In A.12-12-003, SoCalGas requests authority pursuant to Pub. Util. Code §§ 816 – 818 and 851 to issue \$1.5 billion of long-term Debt Securities during the three-year period of 2013-2015 for the following purposes: (i) to refinance \$250 million of long-term debt that matures in 2014, and (ii) to finance construction expenditures related to SoCalGas's public utility operations.

2. SoCalGas requests in its comments on the proposed decision that there be no time limit on the construction expenditures that may be financed with the Debt Securities authorized by this decision.

3. SoCalGas has unused authority under D.09-09-046 to issue \$382 million of long-term debt; unused authority under D.06-07-012 to issue \$100 million of preferred stock; and unused authority under D.96-09-036 to issue \$100 million of preferred stock. SoCalGas has no plan to exercise its unused authority.

4. SoCalGas has a reasonable need to issue \$1.5 billion of long-term debt securities to (i) refinance \$250 million of long-term debt that matures in 2014, and (ii) finance construction expenditures related to SoCalGas's public utility operations during 2013 - 2015. This need can be met by (a) authorizing SoCalGas to issue \$1.118 billion of Debt Securities requested in A.12-12-003, and (b) directing SoCalGas to issue \$382 million of debt securities previously authorized by D.09-06-046.

5. In A.12-12-003, SoCalGas requests authority to issue the types of Debt Securities identified in Section 4.3 of today's decision. The requested types of Debt Securities will provide SoCalGas with flexibility to issue debt at the lowest cost to ratepayers. There is no good cause to prohibit SoCalGas from issuing any of the requested types of Debt Securities.

6. In A.12-12-003, SoCalGas requests authority under Pub. Util. Code § 851 to issue Debt Securities secured by utility property (first mortgage bonds) or by a pledge, sale, or assignment of its accounts receivable (accounts-receivable financing). Granting the request will not adversely affect the public interest.

7. The variable-rate debt authorized by today's decision may require credit support such as a bank credit-line agreement. These credit-line agreements are an integral part of the variable-rate debt.

8. In A.12-12-003, SoCalGas requests authority to use the types of debt enhancements and hedging strategies identified in Sections 4.4 and 4.5 of today's decision. The purpose of the requested debt enhancements and hedging strategies is to lower the cost and/or improve the terms and conditions of the Debt Securities for the benefit of ratepayers.

9. In Resolution ALJ 176-3306, dated December 20, 2012, the Commission preliminarily determined that a hearing is necessary in this proceeding.

10. There were no protests or responses to A.12-12-003. No party raised a factual issue requiring an evidentiary hearing.

Conclusions of Law

1. SoCalGas should be authorized pursuant to Pub. Util. Code § 816 – 818 to issue \$1.118 billion of Debt Securities for the following purposes exclusively: (i) to refinance \$250 million of long-term debt that matures in 2014; and (ii) to finance construction expenditures for SoCalGas's public utility operations.

2. The \$1.118 billion of Debt Securities authorized by today's decision, and the associated money, property, and/or labor to be procured or paid for with the proceeds from these Debt Securities, are, pursuant to Pub. Util. Code § 817 and § 818, reasonably required for proper purposes, and such purposes are not, in whole or in part, reasonably chargeable to operating expenses.

3. SoCalGas may issue \$382 million of long-term debt authorized by D.09-09-046 for the purposes specified in Conclusion of Law 1.

4. Based on the record of this proceeding, it is not prudent to place SoCalGas in a “use it or lose it” situation regarding its authority to issue Debt Securities for the purpose of financing construction expenditures. Rather, SoCalGas should have flexibility to time the issuance of Debt Securities to finance construction expenditures based on the changing needs of its customers, internal cash flow, fluctuating capital markets, and other relevant factors.

5. SoCalGas should be authorized pursuant to Pub. Util. Code § 816 to issue the types of Debt Securities described in Section 4.3 of today’s decision.

6. Credit-line agreements that are used as a credit enhancement for variable-rate debt issued pursuant to today’s decision should not count against the amount of long-term debt issued pursuant to today’s decision, provided that any borrowings under the credit line agreements are used to pay off variable-rate debt so that both forms of debt are not outstanding at the same time.

7. SoCalGas should be authorized pursuant to Pub. Util. Code § 851 to encumber utility assets using the types of secured Debt Securities described in Section 4.3 of today’s decision. Consistent with § 851, if a default occurs and title to any SoCalGas property, franchise, permit, or right that is necessary or useful in the performance of SoCalGas’s duties to the public is transferred pursuant to terms of the secured debt indenture, the thing transferred should be used to provide utility service to the public until the Commission authorizes otherwise.

8. SoCalGas should be authorized pursuant to Pub. Util. Code § 816 - 818 to use the types of debt enhancements and hedging strategies identified in Sections 4.4 and 4.5 of today’s decision with respect to the Debt Securities authorized by today’s decision.

9. SoCalGas's request in A.12-12-003 for authority to use the same types of debt enhancements and hedging strategies authorized by today's decision with respect to the long-term debt authorized by D.09-09-046 is moot. The authority requested by SoCalGas was granted by D.09-09-046.

10. SoCalGas's request in A.12-12-003 for authority to use the debt enhancements and hedging strategies authorized by today's decision with respect to the preferred stock authorized by D.06-07-012 and D.96-09-036 should be denied. The Financing Rule adopted by D.12-06-015 limited the use of debt enhancements and hedging strategies to debt securities. The preferred stock authorized by D.06-07-012 and D.96-09-036 is not debt for Commission regulatory purposes and, therefore, does not qualify for the debt enhancements and hedging strategies authorized by today's decision.

11. The Financing Rule and GO 24-C apply to SoCalGas and the Debt Securities, debt enhancements, and hedges authorized by today's decision.

12. The authority granted by today's decision to issue Debt Securities is separate from the authority to (i) recover the cost of the Debt Securities in rates; (ii) acquire, purchase, or construct utility plant with the proceeds from the Debt Securities; and (iii) or recover the cost of utility plant in rates.

13. The Commission will determine in future regulatory proceedings whether the all-in cost of the Debt Securities issued pursuant to today's decision is just and reasonable and may be recovered in rates; and whether the construction expenditures funded with proceeds from the Debt Securities are reasonable and may be recovered in rates.

14. SoCalGas should not use the proceeds from the Debt Securities authorized by this decision to acquire, purchase, or construct any utility plant without first obtaining all required approvals for the contemplated plant, including any required environmental review and approvals under CEQA.

15. Today's decision is exempt from CEQA.

16. SoCalGas is required by Pub. Util. Code § 1904(b) to remit a check for \$440,000 to the Commission, as set forth in Section 5.5.4 of today's decision.

17. The authority granted by today's decision should not become effective until SoCalGas has paid the fee prescribed by § 1904(b).

18. There are no factual issues in this proceeding that require an evidentiary hearing. The preliminary determination in Resolution ALJ 176-3306 that a hearing is needed should be changed to a hearing is not needed.

19. This proceeding should be closed.

20. The following order should be effective immediately so that SoCalGas may issue the Debt Securities authorized by the order.

O R D E R**IT IS ORDERED** that:

1. Southern California Gas Company (SoCalGas) is authorized pursuant to Public Utilities Code Sections 816 - 818 and 851 to do the following:

- a. Issue long-term debt securities in an aggregate principal amount not to exceed \$1.118 billion (hereafter, "Debt Securities"). SoCalGas shall use the proceeds from the Debt Securities for the following purposes exclusively:
 - (i) refinance \$250 million of long-term debt that matures in 2014; and
 - (ii) finance construction expenditures that are both (A) authorized by Public Utilities Code Section 817, and (B) for the expansion and betterment of utility plant as described in Application 12-12-003.
- b. Issue the following types of Debt Securities: first mortgage bonds, debentures, debt issued in foreign capital markets, medium-term notes, long-term loans, other evidences of indebtedness, and accounts-receivable financings. The principal amount, terms and conditions of each issue of Debt Securities may be determined by SoCalGas's management and/or board of directors based on market conditions at the time of issuance.
- c. Issue Debt Securities that are secured by utility property (first mortgage bonds) or by a pledge, sale, or assignment of accounts receivable (accounts-receivable financing). If a default occurs and title to any SoCalGas property, franchise, permit, or right that is necessary or useful in the performance of SoCalGas's duties to the public is transferred pursuant to the terms of the secured debt indenture, the thing transferred shall continue to be used to provide utility service to the public until the Commission authorizes otherwise.
- d. Use the following types of debt enhancements and derivative transactions with respect to the Debt Securities authorized by this Order: put options, call options, sinking funds, interest-rate swaps, swaptions, caps and collars, currency swaps,

credit enhancements, capital replacement, interest deferral, special-purpose entity transactions, and delayed drawdown.

- e. Use the following types of hedging strategies with respect to the planned issuance of Debt Securities authorized by this Order: the price today and fund later strategy, and the fund today, price later strategy.

2. Southern California Gas Company and the Debt Securities, debt enhancements, derivative transactions, and hedging strategies authorized by this Order are subject to (a) the Financing Rule adopted by Decision (D.) 12-06-015, as corrected by D.12-07-003; (b) General Order 24-C; and (c) the capital structure and associated capital ratios adopted by the Commission.

3. Within 30 days from the effective date of this Order, Southern California Gas Company (SoCalGas) shall remit a check for \$440,000 pursuant to Public Utilities Code Section 1904(b) to the Commission's Fiscal Office at 505 Van Ness Avenue, Room 3000, San Francisco, CA 94102. The decision number of this Order must appear on the face of the check. The authority granted by this Order shall become effective when SoCalGas pays the fee required by Section 1904(b).

4. This Order does not authorize or approve any of Southern California Gas Company's capital projects, construction expenditures, rate base, capital structure, or cost of money.

5. Southern California Gas Company (SoCalGas) may not use the proceeds from the Debt Securities authorized by this Order to finance any project until SoCalGas has obtained all required approvals for the project, including any required review and approval under the California Environmental Quality Act.

6. The authority granted to Southern California Gas Company by this Order is in addition to the authority granted by Decision (D.) 09-09-046, D.06-07-012, and D.96-09-036.

7. The preliminary determination in Resolution ALJ 176-3306 that a hearing is needed is changed to no hearing is needed.

8. Application (A.) 12-12-003 is granted to the extent set forth in the previous Ordering Paragraphs. A.12-12-003 is denied to the extent it requests authority to (i) issue more than \$1.118 billion of Debt Securities; and (ii) apply the debt enhancements and hedging strategies authorized by this Order to the preferred stock that Southern California Gas Company may issue pursuant to Decision (D.) 06-07-012 and D.96-09-036.

9. Application 12-12-003 is closed.

This order is effective today.

Dated _____, at San Francisco, California.